DOCUMENT RESUME

ED 458 676 EA 031 386

AUTHOR Mathis, William J.; Fleming, Brenda L.
TITLE Vermont's Act 60: Comprehensive School Finance Reform--Effects in the First Year of Full Implementation.
PUB DATE 2001-03-00
NOTE 23p.; Paper presented at the Annual Meeting of the American Education Finance Association (26th, Cincinnati, OH, March 22-24, 2001).
PUB TYPE Reports - Descriptive (141) -- Speeches/Meeting Papers (150)
EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Academic Achievement; Block Grants; *Educational Equity (Finance); *Educational Legislation; Elementary Secondary Education; Equalization Aid; Expenditure per Student; *Finance Reform; School District Spending; School District Wealth; *State Aid; Tax Allocation; Tax Rates
IDENTIFIERS *Reform Efforts; *Vermont

ABSTRACT

Vermont's Act 60 received national attention not only because of the controversy surrounding the sharing pool (or recapture provision) but also because of its "potential for being the most equitable system in the country." For fiscal years 1998 to 2001, tax rates have become more equitable, and a direct relationship has appeared between spending level and tax rate at the town level. Tax burdens have also become more equitable on a town-to-town and individual basis. Education spending equity is occurring, though at a relatively slower pace than tax equity. Educational achievement equity is emerging when state test data are used as a measure. Issues are discussed include whether or not the sharing pool should be maintained and whether the recapture provision should be modified. Other issues are monetary gifts as a means of obtaining exemption from recapture, small schools, whether money should move with the child, and the need to reduce bureaucratic complexity. An important question is whether the legislature will weaken the provisions of the act and cause greater inequities or improve the deficiencies in the formula so that it can work more effectively. The paper ends with six charts illustrating financial trends for fiscal years 1998 to 2001. (Contains 11 endnotes and 9 tables and charts.) (RT)

Reproductions supplied by EDRS are the best that can be made
from the original document.

EA

ED 458 676

Vermont's Act 60: Comprehensive School Finance Reform -- Effects in the First Year of Full Implementation

William J. Mathis, Ph.D.
University of Vermont
Rutland Northeast Supervisory Union

Brenda L. Fleming
Rutland Northeast Supervisory Union
Brandon, VT 05733

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

W. Mathis

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

State of the State
American Educational Finance Association's
Annual Meeting
March 2001
Cincinnati, Ohio
3/15/01 vers

EA 031386

BEST COPY AVAILABLE

I. Introduction

Vermont's Act 60 has received national attention not only because of the controversy surrounding the sharing pool (or recapture provision) but also because it "has the potential for being the most equitable system in the country.[1] The key features:

- A large block grant for each pupil[2] designed to cover about 80% of average expenditures. The block grant is funded by a state property tax of $1.10 for each $100 of property value.
- "Local control" is maintained as towns can vote to spend above this block grant. If they do, they will be taxed at a uniform rate across the state for "above block" spending. Thus, it is as easy (or as hard) to spend the same amount per pupil in one town as it is in another.
- Recapture - If town property wealth produces more than the predictable[3] yield (A one percent increase on the tax rate guarantees $41 per pupil for FY02), then the monies above $41 are returned to the Education Trust Fund for redistribution to less property wealthy towns. This recapture and redistribution feature is the most controversial element of the funding plan.
- Income Sensitive Property Tax – Tax Burden Cap – A unique feature of the law is that property tax burdens are equalized by income. For the block grant and state property tax portions, a homesteader[4] pays nc more than two percent of their income. If a local district votes to spend higher, the proportion goes up the same amount for all homesteaders in the town. The protection phases out at $88,000 household income.

The law was phased in over a period of four years (FY98-01). A number of transition features ("soft landings") were built in so that the previous low tax rate towns were buffered from immediate and large tax increases. The lowest pre reform school tax rate was two cents while the highest was $2.40. The gapping disparities were reflected in a federal range ratio of 271%.[5] Even though the more property affluent towns had enjoyed historically low rates, seeing their school tax rate increase to the statewide property tax of $1.10 plus what they locally voted was a large proportionate increase.

II. Background

In 1997, in a unanimous state Supreme Court decision (*Brigham v. State of Vermont),* the Vermont educational funding system was declared unconstitutional. Large inequities in property tax burden combined with the inability of poorer towns to raise sufficient monies to meet minimal state standards led to the decision. Legal scholars reviewing the case have uniformly noted that the decision was based *on equity rather than adequacy.*[6]

Reform opponents took their objections to court and were rebuffed in a string of cases. Efforts to impeach the Supreme Court also failed. On April 11, 2000, the last of the towns refusing to pay the statewide property tax revenues sent in their

check. While the state property appraisal system has been in place in substantially the same form since 1965,[7] correct and comparable property values took on far more importance when the system moved from a 28% state finance share to an 88% state share. Thus, a new suit has been filed contending the property valuation system is inequitable.

Opponents predicted dire consequences on the state's economy and, especially, on the negative effects the reforms would have on the educational performance in previously high spending/ low tax towns. The stellar performance of the economy, the continued economic and population growth in the affluent towns and the improved test scores in these same towns have yet to prove the prognosticators right.

Purposes of the Reform Act – The law (16VSA 1) states the "Right to Equal Educational Opportunity" and says, " . . . substantially equal access to a quality basic education" is the purpose. Citing various aspects of the court decision and interpretations of the law, differing purposes are put forth by opponents and proponents of the Act.

This paper examines each of the explicit and implicit purposes claimed by the various groups.

II. Are the Reforms Working?

At the time of writing, Act 60 is approaching the end of the four-year phase-in period. Tax rate equity and tax burden equity would logically be the first effects to be manifest. Spending level would show up next as schools readjusted fixed expenses, union contracts, etc. Effects on educational outcomes would take longer to be demonstrated simply because of the time needed for assessment, instruction, and curriculum changes to be implemented. Thus, this analysis must be considered preliminary.

Tax Rate Equity – Vermont adjusts the listed value of all properties in a town based on sales history. In short, when a property changes hands, the listed value is compared to the selling price. The difference between listed and selling prices is used to calculate the "Fair Market Value" of the town's property. The "School Equalized Tax Rate" is calculated for each town based on the amount the town is over or under appraised.

Tax equity is improved if the different towns are paying equivalent taxes for the same amount of education spending. Thus, the less the dispersion in tax rates, the more equitable the system. This dispersion is examined in three different ways; federal range ratio, standard deviation, and the coefficient of variation. Greater equity is found when these indicators become smaller.

Tax Rate Equity						
	Range	5th%ile	95th%ile	FRR	S.D.	Coeff. Var.
FY98	$0.12-$2.28	$0.68	$1.95	187%	$0.45	.34
FY99	$0.17-$2.33	$0.89	$1.81	103%	$0.29	.21
FY00	$0.55-$2.22	$0.96	$1.84	92%	$0.26	.18
FY01	$0.62-$2.25	$1.10	$2.00	82%	$0.28	.18

Clearly, the Federal Range Ratio (FRR) is getting smaller as is the coefficient of variation. The standard deviation also becomes smaller but has a slight increase in FY01 due to higher levels of spending for all districts and some towns not being able to offset budget increases with gifts.

While tax rates are clearly becoming more equitable, that's not the whole story. Each town maintains local control and, thus, can vote to spend at the level they choose. The question becomes whether towns pay the same tax rate for the same level of spending. These effects are plotted in Chart I (pre-reform) and Chart II (post-reform).[8]

As can be seen, a pre-reform, shotgun scatter-plot turns into a straight line after reform. The linear relationship between spending level and tax rate is clear and obvious.

Tax Burden Equity – Reform critics contend that tax rate equity is not the right measure. They point to what they see as a flawed property tax appraisal system. They contend that this system results in unfair and excessive tax burdens on high property wealth towns. In other words, property value is a poor indicator of the wealth of the town.

For this analysis, tax burden is defined in the conventional way of percent of income spent on education.

- In FY94, town school tax burdens ranged from 0.0% to 8.2% of resident income. The federal range ratio was 248%.
- In FY01, the full range was reduced to 2% to 4.25% and the federal Range Ratio is 107% (see charts III and IV).

Thus, in terms of tax equity (whether burden or rate), the reform is clearly achieving its goals for town to town equity and for individual taxpayer equity.

Property Tax Burdens and the Income Sensitive "Prebate" System – One of the most unique features of the system is the tax burden cap. This means that the amount of taxes paid by a "homestead" is capped at no more than 2% of income for the block grant. If the town spends more than the block grant (and most do) the amount of taxes is capped in direct proportion.

Chart III shows how tax burdens varied by town and by income for each of Vermont's towns. For a $100,000 house with $40,000 income, the tax burden ranged from 0.0% to 5.7% of income before reform. Under Act 60 (Chart IV) the tax burden is the same for all three groups. Furthermore, the range in tax burdens is greatly reduced and runs from 2% of income to 4.25% of income.

Tax burden is far more equalized and the range of burdens is greatly reduced with Act 60. An added protection is provided by the "super circuit-breaker." In short, the amount of property taxes paid for both school and municipal purposes is capped, on a sliding scale, for incomes below $47,000. These protections turn the basic "flat tax" in Act 60 into a somewhat progressive overall property tax system. These effects are amply demonstrated in Jimerson's Rural Trust Report.[9]

In short, the tax burden protections are serving their intended purposes.

Some Act 60 opponents argue for removing the tax burden cap (prebate system). They wish to use the tax burden protection money to fund removing them from the sharing pool. In other words, increase taxes for moderate and low incomes to give relief to high-income people in property wealthy towns. By looking at Charts III and IV, all but the wealthiest taxpayers in the most property rich towns are advantaged by the Act 60 system. The prebate system protects the vast majority of Vermonters. Logically, and if only for their own interests, opponents should argue to extend tax burden caps above the current $88,000 limit.

Educational Spending Equity – Preliminary data indicates that differences in spending are diminishing. The following analysis and Federal Range Ratios are based on "Local Education Spending" per pupil:

"Local Education Spending Equity"

	Range	5th%ile	95th%ile	FRR	Mean	s.d.	coef.var
FY98	$0 - $17,247	$4812	$8711	181%	$6219	$1766	0.29
FY99	$0 - $12,421	$5004	$8312	166%	$6143	$1526	0.25
FY00	$0 - $ 9131	$4904	$7795	159%	$6188	$1364	0.22
FY01	$0 - $ 9359	$5056	$8402	166%	$6620	$1470	0.22

Spending equity whether measured by reductions in the federal range ratio, the standard deviation or the coefficient of variation all show increasing equity in education spending.

There is an interesting blip in the FY01 data. Average spending went up considerably and went up more at the top end of the distribution than at the bottom. There are two apparent reasons:

First, property affluent towns could raise funds "off the formula" and these considerable fund-raising efforts did not show up in spending figures. As fund-raising began to dry-up in FY01, spending numbers came back on the books and showed an "increase." Note the steady downward trend at the 95th percentile until 2001.

Second, spending increased due to huge increases in special education and health insurance costs. These differences are reflected in the mean.

The Rural Trust study, mentioned previously, used a different methodology yet also found significant gains in spending equity.

Educational Quality – As part of the Act 60 reforms, educational quality reforms were implemented. These required a state testing program, implementation of standards, technical assistance to under performing schools and ultimately, state intervention if technical assistance was not sufficient.

In FY00, four schools were identified for technical assistance by the state based on low-test scores. In year two, 39 schools were identified as in need of assistance. A most curious factor is that none of the original four schools were represented in the 39 identified the following year. A disproportionate number of poor schools and high schools were also identified.

The state accountability program is based on the New Standards Reference Examinations and administered by Harcourt Educational Measurement. Comparable data is available only for 1998, 1999 and 2000 and is presented below. The comparisons are in Normal Curve Equivalents (NCEs) where 50 is the national average.

	Mean	Standard Deviation	Coefficient. of Variation	N
4th Grade ELA				
1998	60.3	18.9	0.3127	7648
1999	61.1	17.9	0.2929	7595
2000	60.6	18.4	0.3033	7502
4th Grade Math				
1998	64.2	21.5	0.3349	7666
1999	65.7	21.2	0.3229	7881
2000	65.9	21.4	0.3243	7563
8th Grade ELA				
1998	62.5	19.7	0.3143	7683
1999	63.1	19.1	0.3022	7453
2000	63.5	18.9	0.2978	7502
8th Grade Math				
1998	65.7	21.4	0.3260	7764
1999	66.7	21.3	0.3194	7602
2000	67.7	20.8	0.3067	7540
10th Grade ELA				
1998	57.1	22.3	0.3914	6059
1999	57.3	22.1	0.3854	6206
2000	58.2	21.8	0.3755	7092
10th Grade Math				
1998	63.0	24.9	0.3951	6089
1999	63.9	24.7	0.3871	6204
2000	65.5	24.6	0.3765	7002

The most outstanding feature of these results is the high performance level for all students in both English/Language Arts and Mathematics. For a state to consistently average thirteen NCE points above the national average is a striking and exceptionally high performance level.

The second interesting feature is that the difference between high scoring and low scoring students is getting smaller. The differences in cohort groups, the small magnitude of the changes and lack of stability in the testing program counsel caution against over-interpreting these gains using this methodology.

In Jimerson's 2001, Rural School and Community Trust Analysis,[10] she used an entirely different technique to analyze achievement gains under Act 60. Using fourth grade student data, she divided the towns into quintiles by property wealth. The percent reaching state standards (mastery levels) in English/Language arts and mathematics went up substantially for all groups with the low-wealth towns registering the largest achievement gains.

The achievement equity gap is larger than for spending or for taxation. However, this is the expected pattern at this stage in the reforms. The degree of fidelity between state standards and the state assessment program and instructional practices is not definitively known nor is the interaction clear.

Nevertheless, a pattern of consistent and substantial high achievement, as compared to the nation, is clearly indicated. Improvements in academic equity are also emerging.

III. Key Issues

During the fall 2000 elections, the House of Representatives shifted from Democrat control to a sizable Republican majority. A key plank in Republican campaigns was eliminating recaptured funds for the Education Trust Fund (a.k.a. – sharing pool or "shark tank"). The House Ways and Means Committee, now with a majority of the membership from sending towns, has adopted an incremental "modify and improve" approach.

Eliminating the sharing pool is not as easy as a political sound bite on the campaign tour. There is no magic source of sustainable money to "buy-out" of the recapture provision. Departing from the equity principles of the Supreme Court decision in Brigham risks running afoul of the courts and the Constitution. Three months into the legislative session, there is not yet a consensus on improvements or modifications to the funding system.

How Equitable is Equitable? – Without an infusion of significant and sustainable monies, any relief for the sending towns must come at the expense of all the other towns. This represents a difficult political, legal and equity problem.

As the law says "substantially equitable," many creative interpretations of the meaning of the word "substantial" are being bandied about.

A number of people argue for an adequacy interpretation of the court decision although it was clearly based on equity. One Republican legislator compared this to

peering into *Alice's Looking Glass*. The myriad and difficult problems of defining an adequacy criterion that would meet court approval is a labyrinthine problem.

Fixed Costs Outpacing State Aid – Presently, the General State Support Grant (block grant) is tied to the cost of government goods and services. This index has cumulatively increased 7.5% over the past three years and is not an adequate reflector of the increase in school costs.

Chief cost drivers:

- Special Education - While regular education costs have tracked the CPI for the past ten years, special education costs increased 145% (see Chart V). In 1990, special education represented ten percent of school spending; in 2000, it was 18 percent.
- Health Benefits – Health premiums have increased 48.5% over the past two years. In 1998, health benefits consumed 7.3% of current expenditures; in 2000, the figure was 9.1% (see Chart VI).
- Mandates – Some legislators argue that school administrative costs are wasteful. Yet, they are driven up by new bureaucratic requirements and record keeping imposed by the legislature. Over the past five years, safe-schools, truancy, state assessment, planning and other requirements have significantly added to school expenditures.

With an unresponsive block grant, these increased costs are transferred into the "predictable" (equalized) yield. Likewise, a statewide decline in enrollments increases per pupil spending as fixed expenses are amortized over a smaller number of students. This has the double effect of a lower proportion of expenses covered by state block grant revenues with an increase in per pupil spending.

In turn, this pushes more costs onto the property tax. This not only increases the anguish of the sending towns but also has exactly the same effect on the receiving towns.

The Effect of Gifts – Gifts to school districts are exempt from recapture. It did not take extensive calculations for citizens and corporate interests in some gold towns to see that a "gift" would be less expensive than paying taxes.

Sixteen towns raised $7.3 million in gifts and thereby denied $15.7 million in recaptured monies in FY00.

The Freeman Foundation, based in the ski town of Stowe, offered to match local fund-raising dollar for dollar for a two-year period. Significant organization efforts were mounted to solicit gifts with some towns hiring fund-raisers to achieve this end. However, maintaining large-scale fund-raising efforts over time is difficult. The Freeman Foundation, facing considerable criticism, announced they will eliminate the matching funds.

Whether the fund raising efforts are sustainable and whether some towns will be able to reach permanent "escape velocity" is still to be seen.

Property Equalization – As noted earlier, Vermont uses an "Aggregate Fair Market Value" approach in determining the property wealth of towns. Basically, market values are determined by comparing the assessed value to the actual selling price. These sales are then extrapolated to a market value for the town. This system was designed to compensate for the unique effects of different property listers in the different towns.

Needless to say, property value determinations are prone to controversy and Vermont is no exception. The driving force in reviewing and improving this system now comes from the more affluent towns who previously were not significantly affected by within town and across town disparities. As a result, Almy and Associates of Chicago were commissioned to study and recommend improvements to the system. Among the twenty recommendations were reducing the number of property classifications, using a third year of sales in the determinations, using town wide ratios in categories with too few sales to generalize to the town and training of district advisors. These recommendations are now being implemented by the administration.[11]

Town Clerks, Selectboards, property listers, school boards and administrators which historically did not pay much attention to market values and listed values often received a rude shock when market values were higher than listed values and the town received less state aid. Simplifying, improving and clarifying this system garners broad support from all towns.

Small Schools – With such a large proportion of school funding based on the block grant ($5383 in FY02), revenues of small schools are extremely vulnerable to enrollment fluctuations. As a large number of schools have less than 100 students (many less than 50), financial stability is jeopardized if a few families leave the district despite the use of a two year ADM enrollment average.

To remedy this problem, school districts with less than 20 students per grade level received an extra student count multiplier. The size of the factor increased as the number of students in the grade decreased. In effect, these were sliding categorical weights ranging from 0.015 to 0.19. (16 VSA 4015).

The amount received in the additional grants does not compensate for losses in enrollment in a state where elementary enrollments are declining.

Money Following the Child – A number of bills have been introduced to drawdown the state support grant for other purposes. School choice advocates say that the money should move with the child, higher education wants block grant money for early enrollments, the National Guard wants a scholarship program for drop-outs and technical education wants an extra categorical weight of 0.4. For schools, the critical issue is whether the monies come from the school district's block grant, the education trust fund or a separate appropriation. The source of the funds is of critical interest to school districts.

Bureaucratic Complexity – All state aid formulas are complex. However, the prebate system and the companion state tax forms have led to anger, confusion and

frustration of people from all points on the political spectrum. Simplifying this morass is an idea heartily supported by all.

IV. Conclusions

Vermont's educational reform act of 1997, even at this early stage, is clearly achieving taxpayer equity. Both tax rates and tax burdens are far more equitable.

Education spending equity is clearly emerging but at a slower rate than tax equity. When districts were divided into quintiles in Jimerson's Rural Trust report, a strong spending equity trend emerged. As the last implementation year is not yet complete, audited "current expense" figures should cast a better light on this question. Using the existing definition (local education spending), the effects of fund-raising depress perceived spending at the top end of the distribution.

Educational achievement equity is also emerging when state test data is used as a measure. This analysis shows high and sustained student achievement with the difference between high and low students converging at a slow rate. The Rural Trust data shows the bottom quintile of school spenders increasing in mastery levels while the top quintile also increased. Thus, the "dumbing down" effect feared by many has not occurred.

The greatest single question is whether the legislature will weaken the provisions of the legislation and cause greater inequities or whether the legislature will improve the deficiencies in the formula so that it can work more effectively.

---

[1] Lawrence O. Picus, "Vermont Spending Plan Seems to Help Schools." New York Times, January 31, 2001.

[2] The per pupil block grant is based on "equalized" pupils. An equalized pupil is the sum of the students and categorical weights for high school, poverty, etc. divided by the total number of students.

[3] The law started with a traditional guaranteed yield and was to shift to a self-sustaining equalized yield. In a compromise to give predictability to local budget planners, the equalized yield is to be set in the fall prior to local board budget development.

[4] A homestead is the primary home and two acres along with the sum of the income of all in the household.

[5] "A Scorecard for School Finance." Vermont Department of Education, March 1996.

[6] Testimony of a panel of lawyers before the House Ways and Means Committee, January 2001.

[7] The system faced exactly the same maladies in 1965 when the old formula was thrown out and an earlier version of a state property tax was implemented. The state then built the early version of the current market value model.

[8] Brad James and William Talbott, State Department of Education.

[9] Lorna Jimerson, "A Reasonably Equal Share: Educational Equity in Vermont." Rural School and Community Trust, Washington, DC, February 2001.

[10] ibid

[11] Almy, Gloudemans, Jacobs and Denne. "Study of Equalization Procedures: Vermont Department of Taxes." Chicago: July 1999.

Before (source VT Dept. of Education)

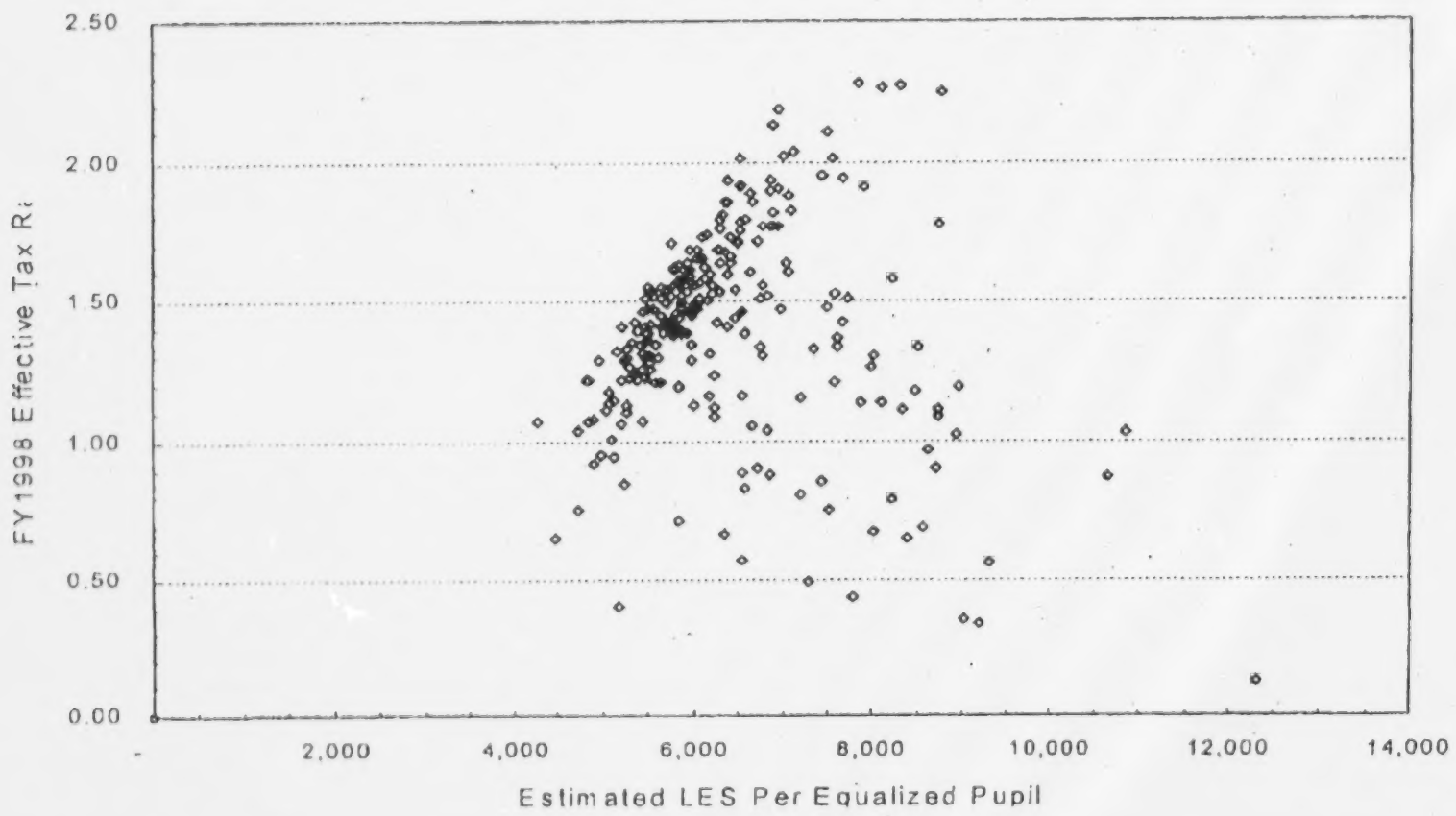


CHART II

After (source VT Dept. of Education)

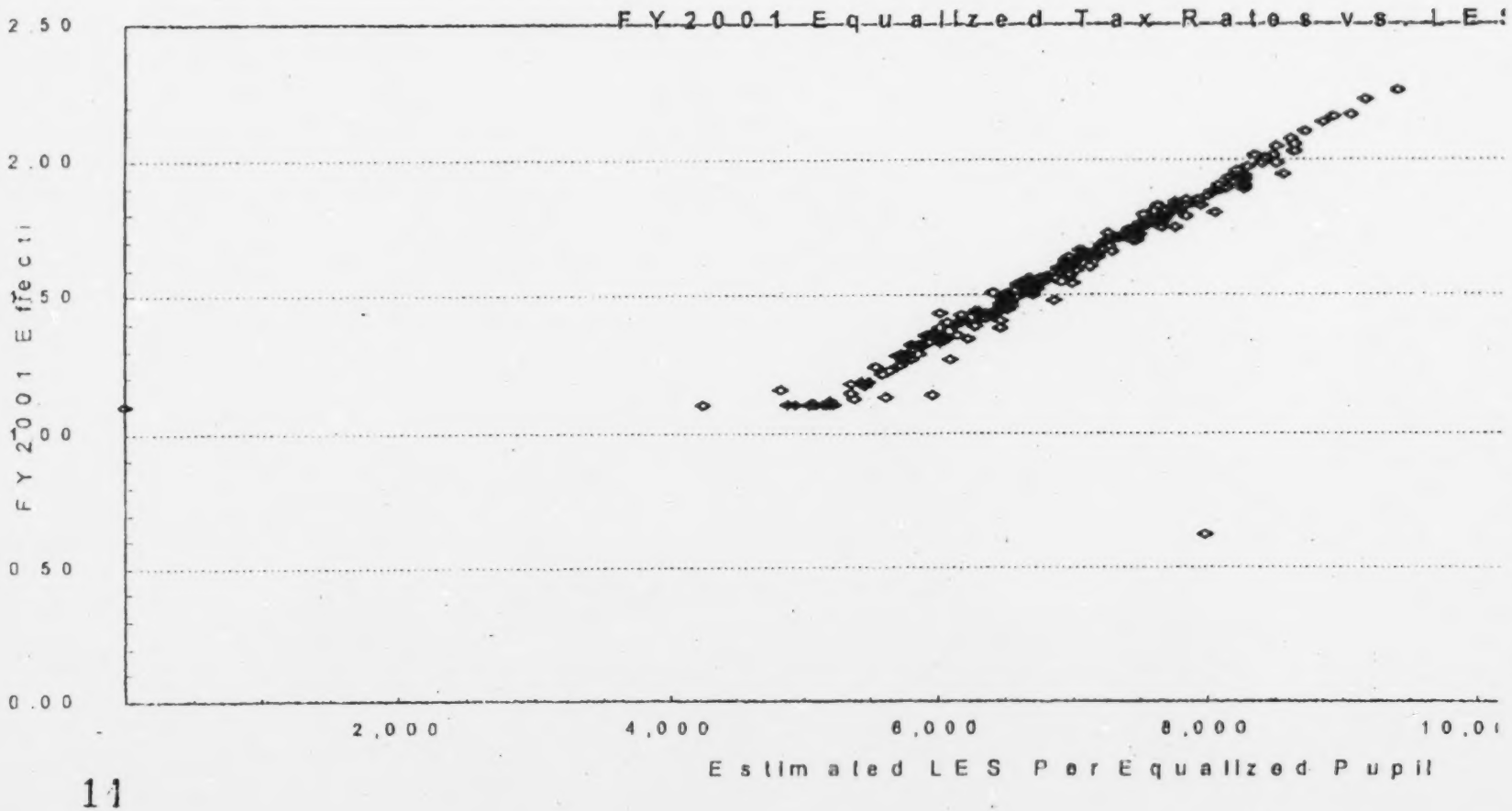
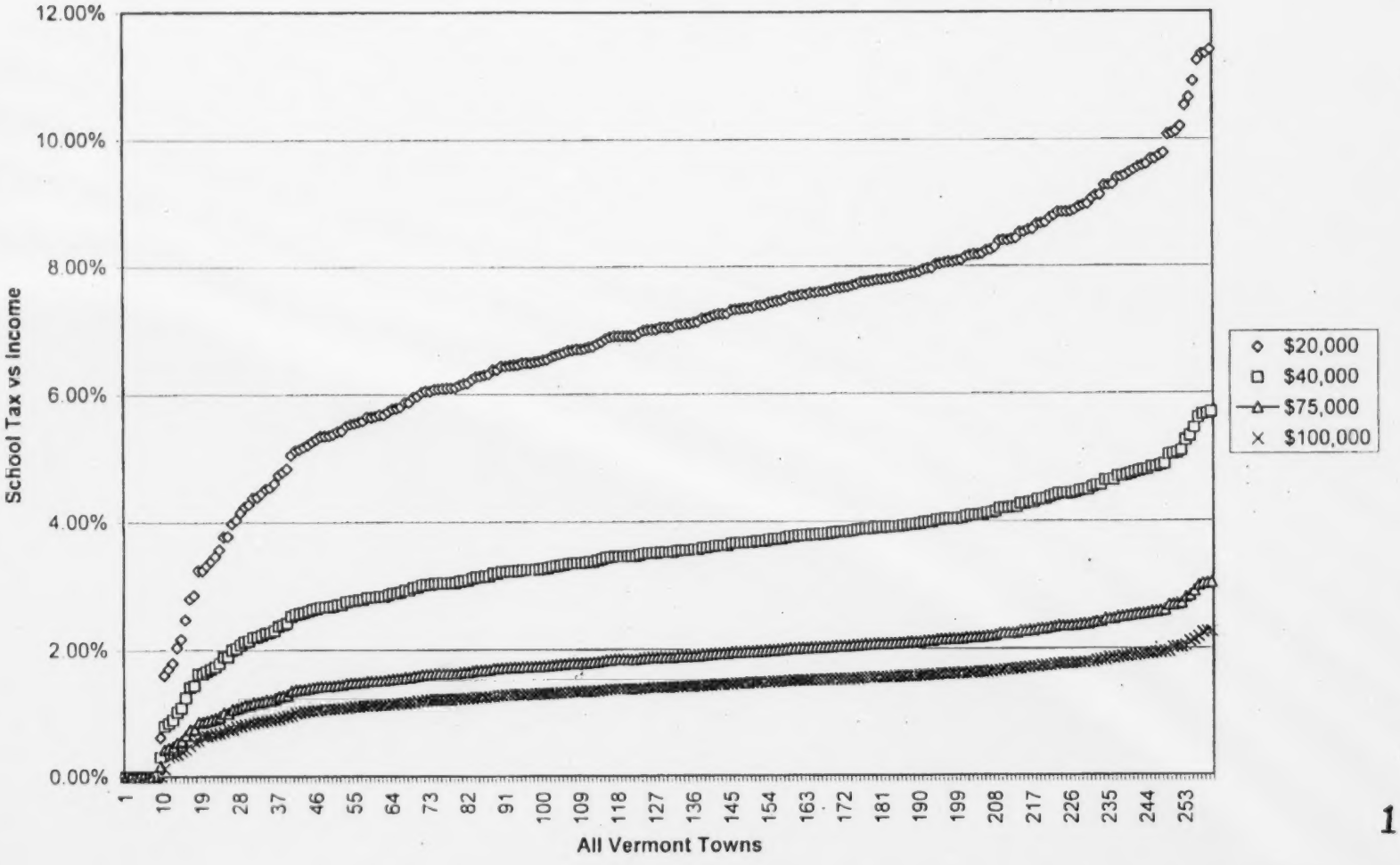


CHART III

Tax Burden FY98, Pre Act 60, $100,000 Homestead & Income as indicated



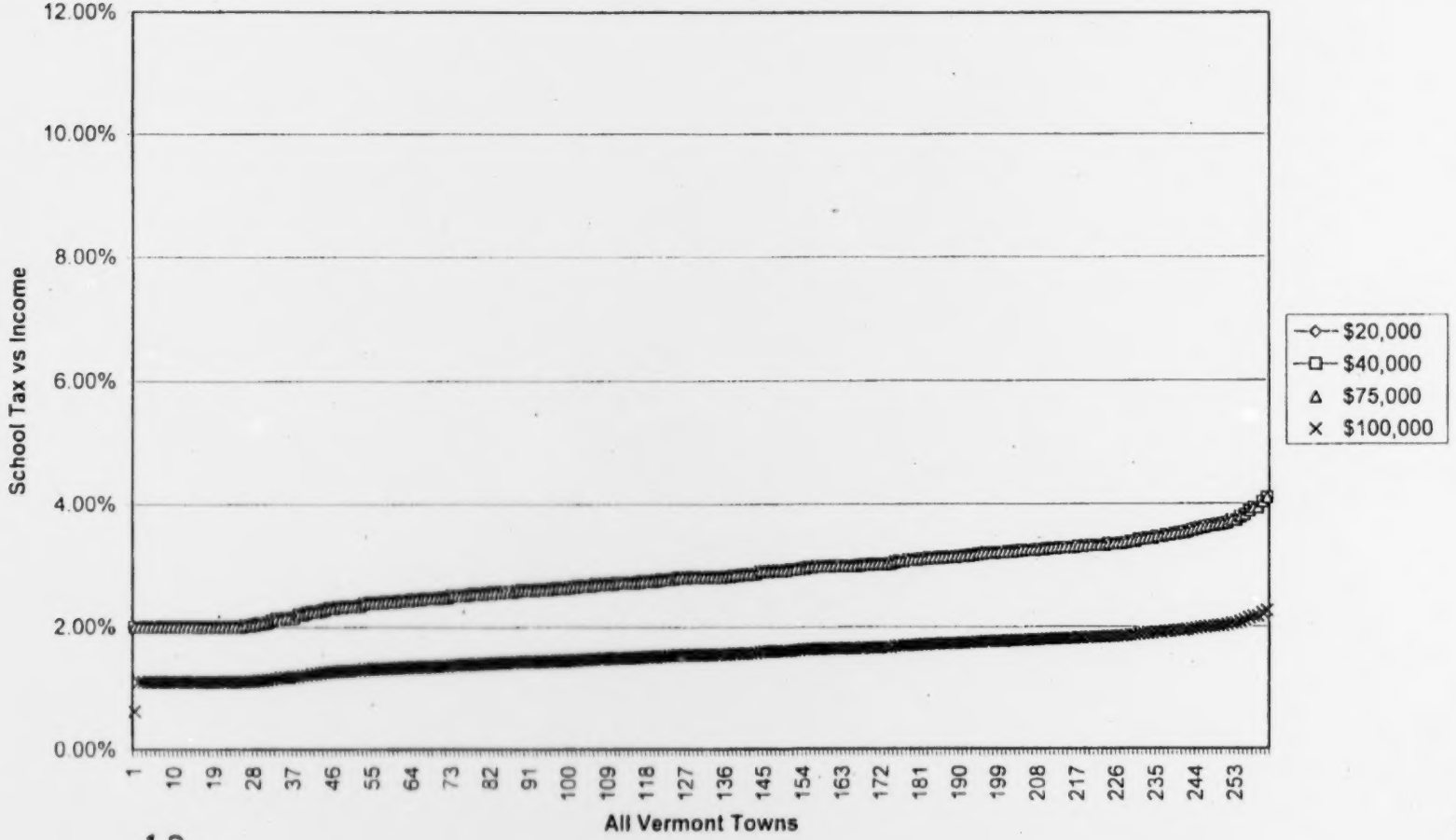
Analysis assumes the same homestead values and various household incomes across all towns.

Prepared by Brenda Fleming

3/15/01

CHART IV

Tax Burden - FY01 $100,000 Homestead & Income as indicated



Analysis assumes the same homestead values and various household incomes across all towns.
Prepared by Brenda Fleming

3/15/01

CHART V

Vermont PK-12 Current Education Spending - FY 1990 - 2000

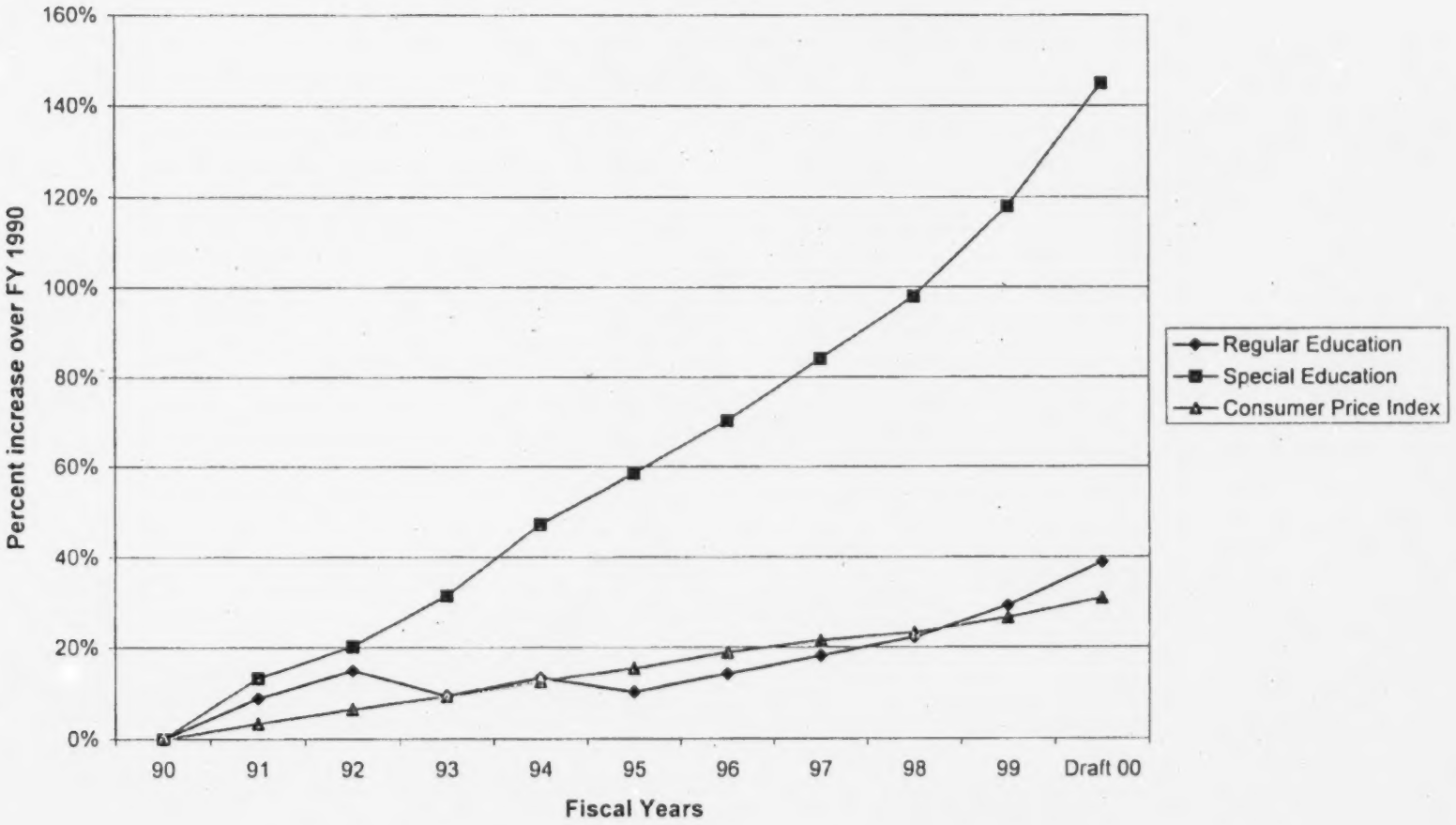
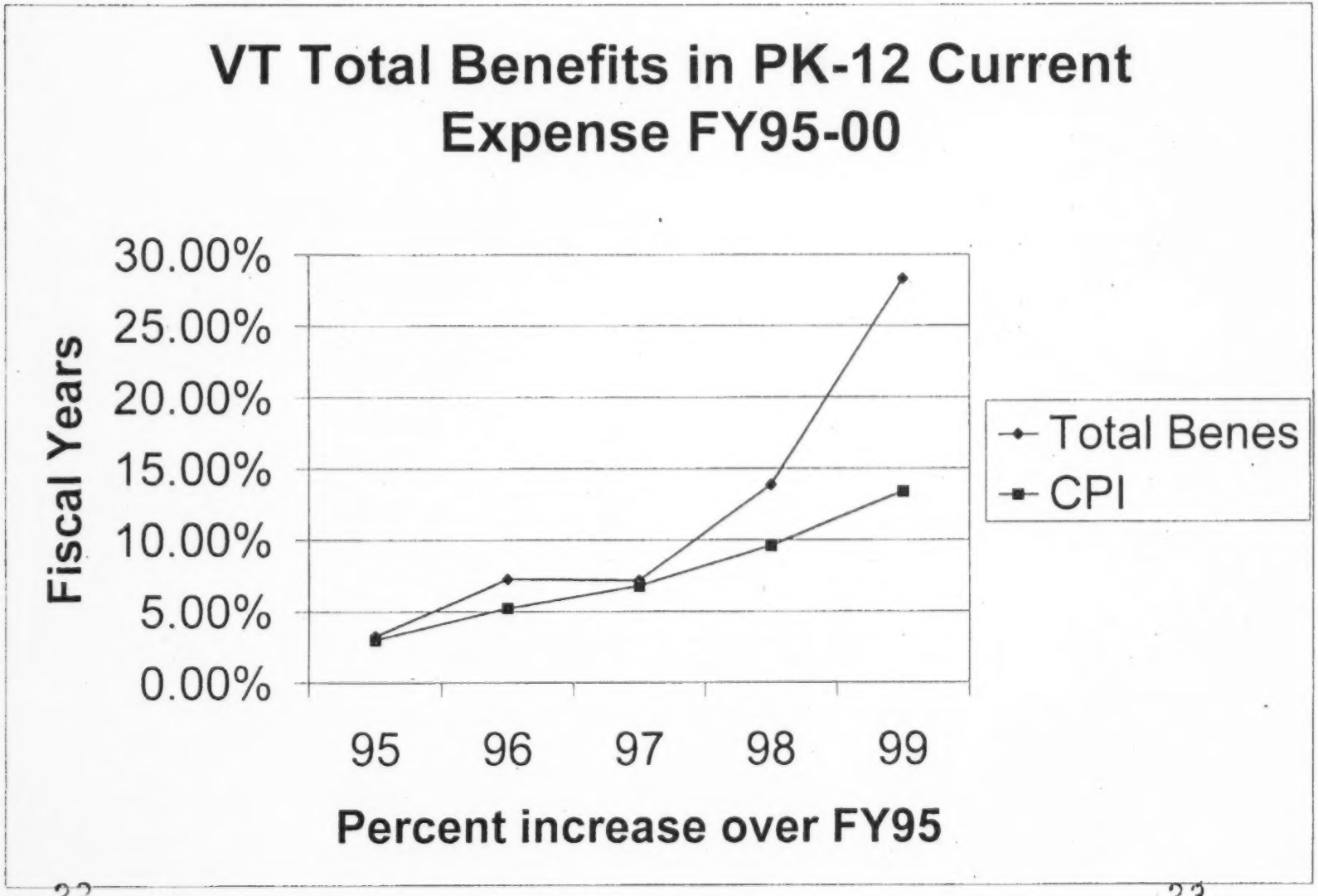


CHART VI


VT Total Benefits in PK-12 Current Expense FY95-00
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
Fiscal Years
95
96
97
98
99
Percent increase over FY95
Total Benes
CPI